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EDGAR J. LEVEY

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MUNICIPAL SOCIALISM AND ITS ECONOMIC LIMITATIONS

WITH SPECIAL REFERENCE TO CONDITIONS IN NEW YORK CITY

THE theoretic socialism which involves the destruction of our existing society and its reconstruction on other bases has made little progress towards accomplishment. But as the increased coöperation necessary to enable modern civilization to perform its complex functions leads us each year further away from the simpler individualism of early life, we are drifting, for the most part unconsciously, toward a practical socialism, the tendencies and results of which it becomes highly important to analyze.

We call this movement municipal socialism, but, as in the case of the other, older and parent socialism, its definition is not easy. Viewed in its broadest aspect, it might mean merely the use which communities make of government in order to engage in coöperative effort. But this would be almost equivalent to making it a synonym for government itself. What is commonly understood by the term municipal socialism is the use by municipalities of the powers of general taxation to obtain special advantages which do not enure to the benefit of those who chiefly defray the cost. It is a phase of the universal struggle of those who have not to take from those who have. It signifies the tendency to depart further and further from those earlier ideas of justice in taxation, which required that the users of public utilities should pay for them, each according to the benefit he derived.

In the earlier stages of urban development, it was comparatively easy to adhere to such principles of justice. For example, in the days of the Dutch occupation of New York, when it was deemed necessary to pave the street known as "Prince's Graft"—inappropriate name!—each resident was required to pave that portion of the street which lay before his own door. While this service is now commuted by money payments, its

essential principle still adheres in our special assessments for benefits. The growth of the "fee system" also contemplated that the benefits of certain advantages of government should be paid for by those who use them. This is still an important factor in modern revenue systems. We have our court fees for litigants, writers of letters still pay postage, and the users of water still pay water rates. But with the growth of municipal functions it has been found impossible to apportion to each citizen his share of the public burden, based on the particular benefits he derives; and each year municipalities are led to depend more and more upon general taxation to meet the expenses of government. In a popular sense, any system of government is generally regarded as socialistic which enables the useless or thriftless drones of society to share equally with the workers those public advantages and conveniences which are provided at public expense. Yet our parks are free to tramp and millionaire alike, and our public schools not only permit but enforce, by means of truancy laws, the attendance of all children of a certain age.

The sense of justice which every man feels (and freely expresses when his own interests are not involved) demands that taxes shall, so far as possible, be equitably imposed. But the laws of the incidence of taxation and its economic effects are still matters of dispute among political economists; and, even if they were understood by the general public, it is clear that no workable system of taxation could be devised or administered which was based solely on the principle of *quid pro quo*.

If we regard, then, as socialistic any system whereby the property of one man is expropriated by forms of law for the benefit of another, it is manifest that in some degree this kind of theoretical injustice has long been with us. It is the extent of its development rather than its mere existence which is of practical interest.

Without tracing in detail the development of municipal revenue systems, it will be sufficient to show how far we have departed from the earlier ideas of justice in taxation by referring to the results of the operation by the city of New York of the Staten Island Ferry. This ferry is owned by the city and

is operated at an annual loss of about three-quarters of a million dollars. This sum does not fall far short of representing the entire amount of taxes paid by the borough of Richmond as its contribution towards all the expenses of city government.[1] In view of the fact that this ferry is run practically for the sole benefit of the residents of this borough, justice in taxation would seem to require that this loss should be borne by them; and if we should imagine the taxes paid by the borough of Richmond to be devoted to this purpose, the result would be that every other service of a public character which that borough receives—police and fire protection, educational, correctional and charitable institutions, health service *etc.*—would have to be regarded as almost a free gift from the taxpayers of the other boroughs. Again: the taxes for 1908 levied on the property within the old village of Corona in the borough of Queens amounted to $132,085.39; whereas the amount spent in 1908 by the city of New York in this same district for educational purposes alone amounted to $107,174.70.

In commenting upon the subtle growth of municipal socialism, a recent writer[2] remarks that "one of the striking peculiarities of the human animal is the readiness with which it accepts improved conditions and forgets that the previous conditions ever existed"; and then he proceeds to say: "In view of the general failure to realize the extent of the progress already made, it seems that Shaw was nearer right when he said: 'The practical abrogation of property, as it exists at present, will occur without being much noticed.'"

It is rather remarkable that the more influential advocates of municipal socialism at the present time are not found among the propagandists of socialism as a theory of government. Strange to say, it is in large part from individuals of the propertied class that the movement at present derives its impetus. Philanthropists impatient of the slow results of private benevolence, charity workers distrustful of the efficacy of privately

[1] In 1907 the loss incurred in operating this ferry was $723,208; whereas the total of taxes levied on the borough of Richmond was $893,997.97.

[2] John C. Trautwine, Jr., Proceedings of the Engineers' Club of Philadelphia, vol. xxv, no. 2; April, 1908.

organized charity, political reformers[1] who believe that the interest of the electorate in problems of efficient municipal administration, now unfortunately slight, will be stimulated by greatly increasing the complexity of these problems—these are among the protagonists of the movement.

The form that their altruism has taken is peculiar to the times. Gustav Le Bon, in the brilliant preface to his *Psychology o, Socialism*, says:

Feeble in the extreme when it attempts to reason and to support itself by economic arguments, [socialism] is on the contrary extremely powerful when it remains in the region of dreams, affirmations and chimerical promises, and if it were never to issue thence it would become even more redoubtable. . . . The present age is one of those periods of transition in which the old beliefs have lost their empire, while those which must replace the old are not yet established. . . . Socialism, whose dream is to substitute itself for the ancient faiths, proposes but a very low ideal, and to establish it appeals but to sentiments lower still. What, in effect, does it promise, more than merely our daily bread, and that at the price of hard labor? With what lever does it seek to raise the soul? With the sentiments of envy and hatred which it creates in the hearts of multitudes? To the crowd no longer satisfied with political and civic equality, it proposes equality of condition, without dreaming that social inequalities are born of those natural inequalities that man has always been powerless to change. It would seem that beliefs founded on so feeble an ideal, on sentiments so little elevated, could have but few chances of propagating themselves. However, they do propagate themselves, for man possesses the marvelous faculty of transforming things to the liking of his desires, of regarding them only through that magical prism of the thoughts and sentiments which show us the world as we wish it to be. Each, at the bidding of his dreams, his ambitions, his hopes, perceives in socialism what the founders of the new faith never dreamed of putting into it. In socialism, the priest perceives the universal extension of charity and dreams of charity while he forgets the altar. The slave, bowed in his painful labor, catches a confused glimpse of the shining paradise where he, in his turn, will be loaded with good things. The enormous legion of the discontented—and who is not of it today?—hopes through the triumph

[1] *Cf.* R. Fulton Cutting, "Public Ownership and the Social Conscience," *Municipal Affairs*, March, 1900.

of socialism for the amelioration of its destiny. It is the sum of all these dreams, all these discontents, all these hopes, that endows the new faith with its incontestable power.

The religious development of the day known as "Christian socialism" preaches to the efficient or fortunate few self-denial, economic asceticism and altruism, while it encourages in the inefficient or less fortunate many the spirit of unrest, envy and greed. It is not clear how the sum total of spiritual progress in the human race is to be thereby increased.[1]

The extent to which modern philanthropy is tending to merge into municipal socialism is well illustrated by an article recently written by Dr. Edward T. Devine, entitled "The New View of Charity,"[2] which may be taken as typically representative of the opinions of a large number of social workers. According to this "new view," the relief of distress should no longer be the principal purpose of charity. Organized philanthropic effort should on the contrary aim chiefly to remove the social causes of misery, dependence and crime, such as bad housing conditions, inadequate or ineffective education, conditions affecting the health of the community, a low standard of living—in short, most of the concomitant circumstances of poverty. Charity, it is claimed, instead of being palliative, should be preventive. This new view of charity is not quite interchangeable with the idea of municipal socialism, because it looks also to a number of social conditions which are usually dealt with by the state and national governments, such as shorter hours of work, child-labor, industrial insurance, employers' liability and the like. In so far, also, as municipal socialism contemplates public operation of utilities promising advantages to the community of a purely economic character, it may be said to be unconnected with the new view. At the same time, the new view contributes energetically to the development of municipal socialism, and the use of the term "charity" as applied to such a concept really involves a somewhat radical reconstruction of the popular understanding of

[1] *Cf.* W. H. Mallock, A Critical Examination of Socialism, p. 163.

[2] *Atlantic Monthly*, December, 1908.

that word. Believing that distress and crime are more largely the results of social environment than of defective character, the advocates of this view propose to direct their efforts towards "the changing of adverse social conditions," which, as Dr. Devine explains, "can be accomplished only by the resources of legislation, of taxation, of large expenditure, or by changes in our educational system, or in our penal system, or in our taxing system, or even in our industrial system." The expression of this view, coming from such a source, is all the more impressive, since Dr. Devine is well known as naturally conservative in disposition, as a believer in industrialism, and as opposed to socialistic theories of government.

When Le Bon wrote the sentences quoted above, he was thinking of socialism as an ideal system, to be substituted for the existing order by revolution; but his assertion that the strength of socialism lies in the enthusiasm of its quasi-religious appeal is equally applicable to the narrower but more practical manifestations of municipal socialism. We cannot, however, dismiss as chimerical the promises of a nearer approach to "equality of condition" which are held out by municipal socialism, for something has already been accomplished in that direction with the assent of, or at least without serious protest from, those who have paid to secure it, and in view of the increasing opportunities for gratifying the sentiment of altruism which growing wealth confers upon society it is obvious that still further progress is not only possible but probable. As communities grow in wealth and develop in civilization, the truths of those purely economic laws which are founded on the greed of that primitive abstraction, the "economic man," stand in constantly increasing need of qualification. As Professor Ross says:

> Government is not the sphere of operation of characteristic forces, but the meeting-place of nearly all the kinds of forces present in social life. "The functions of the state," it has well been remarked, "are coëxtensive with human interests." This is true only because the more important desires—greed, vanity, sympathy with the weak, love of truth, passion for homogeneity, craving for justice—make themselves felt in moulding the policy of government.

The accumulation of wealth is regarded by normal men as a means and not an end. The purposes to which wealth is applied or for which it is consumed vary according to the ideals of society in its different stages. When the more primitive problems of self-support are solved and the gratification of the animal pleasures becomes easier, the growth of sympathy is fostered and the exercise of it encouraged. With increasing wealth the purely selfish interest of many develops into a broader social interest, and one of the manifestations of this social interest is the desire to render aid to the weak and unfortunate. Wealth itself has an exchange value, and with its increase comes a decline in that value and an increase in the price which the wealthy are ready to pay for social betterment.

What concerns us now, therefore, is to ascertain, if possible, whether this movement which we call municipal socialism can really continue until it shall result, in the language of Mr. Shaw, in "the practical abrogation of property," and if not, what causes will check it and at what stage of its progress.

Municipal socialism aims at the municipalization of two kinds of human effort, the one economic, the other humanitarian, which, though not wholly unrelated, are in the main distinct and to some extent even antagonistic to each other: (1) public ownership, operation or control of industrial functions, especially those which are monopolistic in character, such as water supply, lighting, street railways and telephone service; and (2) philanthropic improvement of social conditions. Municipal activity in the field of economic effort, however strongly it may tempt us to tax one class in a community for the benefit of another, is not necessarily incompatible with improved efficiency and economic profit. In so far as these results may safely be predicted, the movement towards municipal socialism need cause no concern. If a city can supply its inhabitants with gas or electric light of a better quality or at cheaper rates than a private monopoly, and if the prices charged are high enough to render the enterprise self-sustaining, so that it is unnecessary to resort to taxation, no injustice is done to any one, and certainly there is no resulting threat of "abrogation of property."

Our inquiry need be directed, then, only to those phases of

municipal socialism, either predatory or eleemosynary which are economically unprofitable, or which tend in any excessive degree to tax one man for the benefit of another.

Without further generalization, let us examine briefly the actual conditions in the city of New York. The phenomena of municipal socialism do not exhibit themselves equally in different cities, and it is of course open to any one to object that New York is not thoroughly typical in this respect; but it is not believed that any qualifications that may be necessary to meet such objections will prove material. New York is fairly typical. In some respects, notably in the services rendered at public expense by its health department and in education, it is foremost among the great cities of the world; in other respects, as in municipal operation of transportation and lighting utilities, it has been more conservative. The table printed below shows the comparative expenditures and debts of New York and other leading American and European cities, according to the classification of Professor Fairlie.[1] In the special report of the

[1] Charles E. Merriam and John A. Fairlie, Revenue Systems of American and Foreign Cities, a report to the City Club of Chicago, 1906. The statistics are mostly of the year 1903 for American cities and of the years 1901–02 for European cities. Comparisons drawn therefrom fail materially, therefore, in exhibiting present conditions. Expenditure and debt have increased much more rapidly in New York since 1903 than in any other city. The New York budget for 1909 shows an increase of 61 per cent over that of 1903 and in the same period the net funded debt has increased over 92 per cent.

EXPENDITURES	NEW YORK	CHICAGO	PHILADELPHIA	ST. LOUIS
Total general	$74,624,956	$23,256,115	$18,258,543	$9,093,645
" ordinary	105,505,616	30,208,693	25,049,383	11,126,762
" extraordinary . . .	64,422,050	12,075,545	13,369,332	5,364,123
Grand total	169,927,666	42,284,238	38,418,715	16,490,885
Per capita, general . . .	20.08	12.03	13.35	14.52
" ordinary . . .	28.39	15.63	18.03	18.17
Total debt	381,687,512	49,901,932	50,654,640	22,579,917
Per capita	102.68	25.82	37.04	36.86

Census Bureau on statistics of cities having a population of over 30,000, the net indebtedness per capita of the five leading American cities for the year 1905 is stated as follows: New York, $118.91; Chicago, $33.33; Philadelphia, $44.80; St. Louis, $32.15; Boston, $113.34.[1] In the ten years from January 1, 1898, to January 1, 1908, the New York City budget for municipal purposes increased over 100 per cent: from $70,175,896.84 to $140,449,731.39. During the same period the net funded debt increased 131 per cent: from $232,248,785.89 to $537,577,801.03. The recent publication of these[2] and other statistics has led to considerable discussion and to the awakening of a wider public interest than has hitherto been manifested in the the important question of municipal expenditure.

Comparative statistics of cities are notoriously misleading. Expenditures are variously classified, revenue systems differ materially, and the divisions of expenses between cities and state and national governments are very dissimilar. Thus in

[1] Here, as in the subjoined table, the extreme variation between the city of Boston as an economic unit and the same city as an area of municipal government renders the statistics of Boston misleading for purposes of comparison with cities where there is a comparatively close concordance between these two different concepts of the word city. *Cf.* Edgar J. Levey, "City Expenditures and Population," in the *Real Estate Record and Guide*, December 5, 1908.

[2] Edgar J. Levey, New York City's Progress towards Bankruptcy (Privately printed, New York, 1908).

Boston	London	Paris	Berlin	Vienna	Glasgow
$15,085,346	$73,710,000	$45,385,000	$26,784,000	$20,164,000	$7,850,000
25,141,812	95,319,000	69,980,000	38,668,000	29,314,000	19,255,000
8,827,482	39,071,000	10,630,000	10,897,000	28,912,000	6,496,000
33,969,294	134,390,000	80,610,000	49,565,000	58,226,000	25,751,000
25.37	16.17	17.08	14.24	12.24	8.61
42.45	20.47	26.31	20.35	17.24	21.11
92,096,663	335,492,000	459,530,000	59,230,000	97,399,000	78,620,000
154.88	73.57	172.82	31.36	58.02	86.20

DEBT AND EXPENDITURES OF NEW YORK CITY: 1900–1908

YEAR	POPULATION [1]	FUNDED DEBT [3]	NEW CORPORATE STOCK ISSUES [5]	APPROPRIATIONS FOR CITY PURPOSES [6]	NET FUNDED DEBT PER CAPITA
1900	3,499,516	$277,696,744	$32,676,012	$79,201,763	$79.35
1901	3,609,386	298,873,969	36,312,315	87,475,844	82.80
1902	3,723,044	311,772,211	29,469,760	89,695,395	83.74
1903	3,840,713	334,176,991	40,520,419	92,845,809	87.01
1904	3,962,371	400,945,164	78,428,337	102,406,718	101.18
1905	4,068,275	430,477,000	37,960,934	105,058,220	105.81
1906	4,218,577	474,555,905	54,217,268	111,750,497	112.49
1907	4,353,464	537,577,801	71,345,195	122,756,666	123.48
1908	4,490,714 [2]	597,934,849 [4]	. .	135,474,403	133.15

[1] Health Department estimate for December 31 of each year. [2] Estimate for December 1, 1908. [3] On December 31 of each year. [4] December 1, 1908.

[5] During the five years 1898–1902, inclusive, new corporate stock (funded debt) issues amounted to $146,653,270.78; during the next five years 1903–1907, inclusive, to $282,472,155.06—annual averages of about 29 and 56 millions, respectively.

[6] Appropriations for state and county purposes omitted. For some of the earlier years state taxes were levied through the city or county budgets; later, through taxes collected directly by the state, of which, of course, the tax-payers of New York City contribute their proportion, though the amount thereof no longer appears in the budget. No such difficulty arises in comparing appropriations for purely municipal purposes.

European countries the national governments contribute largely to the funds for municipal purposes. Boston, besides paying for its own hospital for the insane, included in its budget (1907–08) about two and a half millions for payments to the commonwealth of Massachusetts. New York, on the other hand, is relieved by the state of the care of its insane and pays from its budget practically nothing in the way of state taxes. The citizens of New York, of course, pay their full proportion of the state expenses, but these do not appear in the New York budget and the taxes necessary therefor are not levied through the local authorities. But while comparative municipal statistics are misleading, correct conclusions may be drawn from statistics of single cities as regards growth of debt and of expenditures. Such statistics for New York City are presented on the preceding page.

For the vast increase of debt and taxation in New York City various causes may be assigned. Those which seem to the writer the principal causes may be stated as follows:

(1) Inefficiency in administration due to the personal incompetence of officials. Waste from ignorance or carelessness, which comes under this head, is an important factor in all large American cities. The remedy is of course political.

(2) Inefficiency due to defective administrative methods. While good methods are less important than good men, they are nevertheless essential to economical government. Capable officials will accomplish fairly efficient results with antiquated methods of administration, just as a clever workman will manage to get along with old-fashioned tools; whereas the best administrative methods devisable will be of no avail if their application is entrusted to incompetents. Strictly speaking, this cause of waste is a result of inefficiency due to personal incompetence, since the right men in office should have intelligence and energy enough to devise and install proper methods.

(3) Dishonesty. This is closely connected, at least, with the two foregoing causes. Its prevalence, extent and importance is often exaggerated in public opinion. The cure is obvious.

(4) Indifference of the electorate to problems of municipal government. This is probably more noticeable in New York

than in any other large city in the world, and, as a cause, is contributory to all others. The difficulties of popular education are vastly greater in municipal government than in national affairs. In national politics occasional decisions are required upon issues more or less clearly defined. In municipal government, constant attention must be directed to the numberless problems of what is practically the management of a great and complicated business enterprise.

(5) The consolidation of the present boroughs into the Greater New York. This change made it appear necessary to unite the several boroughs physically as well as politically, by proper transportation facilities, and to spend large sums of money in bringing the outlying boroughs up to an urban standard in many matters which had been neglected, as, for example, in the matter of street paving. Under this head it should also be noted that the salaries of city employees living in the semi-rural boroughs were "equalized," that is, they were brought up to the highest standard prevailing in Manhattan, regardless of differences in rent and in the general cost of living. While this cause of increased expenditure must be regarded as exceptional, and its force is now largely spent, it should be remarked that the atmosphere of extravagance which it engendered is still present. Just as an individual finds it difficult to reduce expenses after he has become accustomed to extravagant living, so city officials, having become accustomed to bond issues of sixty or seventy millions a year, now "think in large figures" and have to some extent lost their appreciation of the value of money.

(6) Expansion in the field of municipal activities. Under this head come all the varied phenomena of municipal socialism, and here we are brought face to face with the problem which seems destined to become of supreme importance in the future history of New York and of other cities, and which it is the object of this article to discuss.

Brief reference has already been made to the great increase in debt and taxation which has marked the development of New York since consolidation—an increase altogether disproportionate to the city's increase in population. If for a few

years following consolidation there had been an abnormal increase in expenditures, due to the causes above mentioned, and if expenditure had then become stationary, or had increased only in proportion to the increase of population, there would have been nothing in the situation to arouse apprehension. The statistics of expenditure above presented show, however, that the rate of increase has been much greater in the last five years than during the five years previous. It is this progressive increase which excites alarm. Should the ratio of the recent increase in the budget be maintained for the next ten years, the city would then be facing an annual expenditure of $370,000,000, which would represent a per capita tax of about $54 as against $26.25 in 1908. It is not so much that taxes today are high, though there is much complaint on that score; it is rather the fear of future confiscation of realty holdings, and especially of equities in mortgaged properties, that has aroused genuine anxiety in taxpayers. Let us therefore consider how the further development of municipal socialism will affect the finances of New York City. In doing this we may ignore those elementary protective functions which are always discharged in modern urban communities; we may pass over the fire department, the police, the courts, the correctional institutions, *etc.*, though even in these there is opportunity for vastly increased expenditure; and in considering possible outlays for social betterment we shall confine our attention to the lines of municipal activity to which the city is already in principle committed.

I. *Education.* More than one-quarter of New York's entire budget, exclusive of the debt-service, is now devoted to this purpose. A considerable part of the outlay is for secondary and higher education. Little has been done, however, in the way of technical training. Without departing from principles of government already recognized, trade schools might be established and developed, with the result of almost doubling the cost of public education. Again: it is now a tenet of our government that municipal duty towards children of school-age is not limited to merely offering opportunity for education. Education must be enforced by means of truancy laws, and the physical welfare of the child must receive attention in order

that he be made receptive to educational influence. Our Board of Health conducts a medical inspection of school children for this purpose. The principle here involved is important. This medical school inspection is at present rather limited; it is capable of almost unlimited expansion and at corresponding cost. Moreover, if disease should be combated as rendering a school child physically unfit to receive educational training, why not also hunger? What is there of intrinsic absurdity in the proposition that the city should feed its scholars? At first it would feed the children of poor parents only; ultimately, of course, all children, since class discrimination would be undemocratic. Moreover, if food is necessary to physical fitness, why not also clothing?

Not long ago the proposition was timidly advanced that, in view of the enormous appropriations required by the Board of Education, New York should adopt the so-called "Denver idea," *i. e.* that it should reduce by half the attendance period of the very young children. It was claimed that not only would this be beneficial to the children themselves, but that the present school capacity would be greatly increased and that an annual saving of five millions of dollars could be effected. Objection was at once raised;[1] it was stated that neither of the above considerations should be regarded; and it was argued, substantially, that the city should be held responsible for the moral welfare of its school children, that they should not be allowed to play in the streets, and that they should be kept away from home as long as possible, since, as most of them lived in tenements, their natural surroundings were unfortunate. It was suggested, however, that the "Denver idea" might be considered after the city had spent some unstated fraction of $25,000,000 in providing recreation centers.

From the foregoing it will appear that if the city were to imitate ancient Sparta, or perhaps it would be better to say the Lilliput of *Gulliver's Travels*, and were to deprive parents of all care and responsibility for their children of school age, it would merely extend, not depart from, principles already accepted. The means of estimating the cost are not at hand.

[1] *Cf.* editorial in *The Evening Post*, November 12, 1908.

II. *Recreation.* Why should not New York operate or at least give subventions to a municipal orchestra, an opera house and a theatre,[1] as is done in most of the larger cities of continental Europe? The principle was recognized when the city first gave band concerts in the public parks.[2] Paris maintains a municipal race track and appropriates $50,000 a year in prizes for the horse races. If the same thing were done in New York, it might at least be said that a larger number of citizens could enjoy this entertainment than now derive amusement from the $3,000,000 speedway constructed for the benefit of owners of fast trotting-horses. Again, if facilities for athletic sports are to be furnished to pupils in our public schools, and if portions of our parks are to be set apart for tennis, golf and skating, why is not any provision justifiable that may be made for the healthful recreation of the public?

Just as the city's park system is capable of very extensive enlargement, especially in the way of small parks in the densely populated districts, so the public baths, of which we have a few, could be almost indefinitely multiplied.

III. *Street facilities.* The most obvious extension here would be found in street cleaning and especially in snow removal. This last-named function is almost peculiar to New York, but at present snow removal, which is exceedingly expensive, is mainly limited to business thoroughfares. It is easy to conceive that there might be a public demand that the snow should be removed from every city street.

IV. *Charities.* New York appropriated, in 1908, $3,214,146.59 for the department of "Bellevue and Allied Hospitals"; $3,844,150 for its department of Public Charities, and $4,349,489.40 as subsidies to private charitable institutions—a total of $11,407,785.99. The system of poor relief and medical aid in

[1] Urged by Professor James H. Hamilton in the *American Journal of Sociology.*

[2] In *Municipal Affairs*, vol. v, no. 3, Mr. John Martin suggested an elaborate constructive program for the Low administration; and, in referring to this service of municipal music, he urged that it might well be extended to include tunes for the children to dance to, in streets which should be closed to traffic during special hours summer evenings. A more recent article by Mr. Martin, "Social Reconstruction of To-day," *The Atlantic*, September, 1908, is fairly typical of the ideals of municipal socialism.

New York is conducted in part by the municipality and in part by private benevolence. Contributions from the latter source amount to many millions. If consistency were an inexorable rule of action in city government, the whole of this burden would have to be borne by the municipality. This has already been seriously urged. Mr. R. Fulton Cutting, himself a most generous giver and devoted to philanthropic work, has expressed himself as follows:

> The municipalization of private charities would involve a great additional expense. The millions contributed by the generous few would have to be provided from a general tax levy. The strictest economy in the use of the city's present income would hardly suffice to meet the new requirements; but there is nothing terrible in this. The citizens who now voluntarily support philanthropic institutions can fairly be claimed to represent the highest standard of intelligence and virtue in the community, and they virtually advocate a larger expenditure by it.[1]

Something might be said of the moral effects of drying up the fount of private benevolence in a community by occupying the channels into which the stream of philanthropy most desires to flow; but it is sufficient to remark that the real or supposed superior efficiency of private charitable work has probably been more effectual in maintaining the present system than any desire to avoid higher taxation. Without disturbing private philanthropy in its chosen field, however, there is abundant opportunity for the city to spend larger sums for charitable objects. There is need for more hospitals; larger donations might be made with good results for the care of dependent children; more free municipal lodging houses would find their necessary number of unfortunate occupants; and labor bureaus might be established for the benefit of the unemployed.

V. *Public health.* In this sphere of municipal activity New York is already foremost, if it is not indeed the actual leader of all great cities. But active as is the New York Board of Health and diversified as are its functions, it has but scratched the surface of its field. Without attempting to describe the many ramifications into which the police power of this department

[1] "Public Ownership and the Social Conscience," *Municipal Affairs*, March, 1900.

might be led in any thorough-going system of prevention of disease, it will be sufficient to refer to what might be done in combating one ailment alone—pulmonary tuberculosis. The prevention of this dread disease depends in very large measure upon improvement of social conditions. It is propagated in poverty. Up to a certain point, medical skill and the diffusion of popular knowledge may succeed in checking its ravages. To go beyond that point and to achieve complete success means simply to raise the standard of living or, in a word, to abolish poverty. To tell the tenement dweller that he needs plenty of fresh air and sunshine, healthful sleeping quarters, warm clothing, an abundance of nutritious food, and that, if the disease has already seized him, he must have complete rest and absence of care, is to make him anxious to observe all these precepts; but how?

VI. *Markets.* New York owns a number of public markets, which from a business point of view are unprofitable. The reason urged for maintaining them at a loss is that their existence tends to reduce the cost of food to such citizens as are able, by reason of proximity, to patronize them. It is doubtful whether there is much truth in this claim; but if the city is justified in losing money in order to provide some of its citizens with cheaper food, by the same token it would be justified in buying food products directly and then selling them at lower prices, or, for that matter, in making free distribution of corn as in ancient Rome.

VII. *Transportation services.* Reference has already been made to the annual loss of about three-quarters of a million dollars incurred by the city in operating the Staten Island ferry. If a ferry is to be run by a municipality at such an enormous loss for the benefit of a small fraction of its citizens, the running of it free of all charge might be said not to differ in principle but only in degree. That this should be done has been earnestly urged by residents of the borough of Richmond; and in support of their plea it is claimed that, as their place of residence is an island and yet an integral part of the city, this ferry, which is the only means of access, should be regarded as a highway. Our streets and highways are free to all, they say,

and our bridges, which serve the same purpose of inter-borough communication as this ferry, are also treated as highways and are free.

The argument, on principle, is not wholly without weight. But would not such an application, if allowed, lead logically to the furnishing of other kinds of free transportation facilities, notably by municipal purchase and operation of existing street car, elevated and subway lines? Should this ever happen, the more extreme municipal socialists would surely argue that, as people are carried free, so also should property be similarly transported, and a municipal express service would follow. But we are passing now to inferences which, however logical, seem far-fetched to the present generation. Less extreme, however, would be the furnishing of free water, gas and electric light.

The point to be noted is that (except possibly in the cases last referred to) the expansion of social functions which have been mentioned might be accomplished without departing from principles of municipal activity which the city has already recognized. Nothing has been said about industrial functions which have been recognized by other cities. Municipal ownership of cemeteries is common in the continental cities of Europe; municipal pawnshops are general in Belgium, Holland and Germany; municipal savings banks are more important in many European countries than are similar private institutions; commercial banks are owned by certain cities in Russia; a municipal restaurant is maintained by the city of Grenoble in France; the business of fire insurance is directly undertaken by several of the Swiss cantons; and model tenements have been erected by the city of Liverpool. Of these precedents for municipal socialism, of which the list just given is by no means exhaustive, nothing has been said, because New York has not yet undertaken any of these enterprises; but a sufficient number of examples has been given to demonstrate the extent to which the city of New York might become involved in municipal socialism if the sole criterion of its further advance were to be sought in a merely logical or consistent development of ideas already incorporated in its administration and acquiesced in generally by its taxpayers.

It is most important also to remember that we would not willingly part with the conveniences and advantages of government which we now possess. Up to a certain point taxpayers are quite content to accept the theoretical injustice which taxes one man for the benefit of another. The bachelor does not seriously object to helping to defray the cost of primary education for the children of the city, although he may have doubts about secondary education and may earnestly question the justice of requiring him to aid in paying for another man's collegiate education. Those who are healthy and well-to-do would not abolish the public hospitals, and public sentiment sustains the public aid given for the support of dependent children.

Urban conditions create a solidarity which contains a large measure of altruism—a solidarity, in other words, which on its philanthropic side tends to become a kind of governmental sodality; and the dangers of municipal socialism lie largely in the readiness with which this spirit in the community lends itself to the expansion of municipal functions without due regard to the economic effect. If all the plans for city expenditure which have been outlined above were to be presented at the same time to the voters for acceptance as one grand scheme for social betterment, the plan would undoubtedly be rejected as ensuring municipal bankruptcy. But that is not the manner of their presentation; and when they are encountered one by one the benefits which they promise and the claim that they are justified by accepted precedents render it difficult to oppose them on purely economic grounds. We have seen that up to a certain point taxpayers acquiesce in the progress of municipal socialism. When is the point reached at which they protest? That point is not one which can be accurately fixed; it differs with the varying tempers of different communities; but in a general way it may be said to be reached when taxpayers feel the burden of taxation to be so oppressive that they realize the extent to which they are being taxed without corresponding benefit to themselves. It is reached, to put the same thought more simply, when the size of their tax-bills strains their willingness to contribute to the public good.

The socialistic theory which demands the control of all labor

and the ownership of all productive property by the state—state socialism, let us call it, to distinguish it from municipal socialism — contemplates (however erroneously) a system grounded on justice, in which each man shall receive, according to his deserts, the fruits of his toil. Such a theory is hopelessly impracticable, since in denying the rights of private ownership it ignores elementary principles of human nature. Municipal socialism, on the other hand, is grounded on injustice, in that it proposes to apply the wealth of the efficient for the benefit of the inefficient. For this very reason it is eminently practical as a political proposition in any democracy where the discontented element of the electorate is in a majority.

State socialism is weak, because it requires a revolutionary overthrow of the existing system of society, and, under normal conditions, the human mind abhors revolutions. Municipal socialism is strong, because it evolves itself in subtle fashion and by gradual steps from a base which has been accepted by society and to which mankind has become accustomed towards a goal whose outlines are vague and obscure.

There is nothing to be gained by the opponents of municipal socialism in shutting their eyes to obvious facts. It is impossible to deny that the stricter ideas of justice between man and man which once prevailed no longer form the basis of our political institutions. Whatever the outcome, modern society has accepted, tacitly if not explicitly, the principle that the strong must assume at least a portion of the burden of the weak and that the privilege of voluntary charity shall be gradually supplanted by the duty of involuntary social service. Herbert Spencer discerned this clearly when he wrote:

> Sympathy, which a generation ago was taking the shape of justice, is relapsing into the shape of generosity; and the generosity is exercised by inflicting injustice. Daily legislation betrays little anxiety that each shall have that which belongs to him, but great anxiety that he shall have that which belongs to somebody else.

How far will this movement reach? Into the realm of prophecy the student of social phenomena may well hesitate to venture. The manifold cross-currents of human life generally lead in un-

foreseen directions and the far-distant future phases of civilization are hard to forecast. But passing from such generalities to the more practical consideration of present conditions, it should prove feasible to describe some of the obstacles which municipal socialism will have to surmount.

In the case of New York City, these obstacles are twofold: (1) an artificial obstacle, *viz.* the limitation placed by the state constitution on the extent of taxation in municipalities, and (2) a natural obstacle, *viz.* the far-reaching economic effects which extremely oppressive taxation would have upon the industrial welfare of the municipality, and which would naturally lead to reaction.

Section 10 of article 8 of the New York state constitution provides that

> the amount hereafter to be raised by tax for county or city purposes in any county containing a city of over one hundred thousand inhabitants, or any such city of this state, in addition to providing for the principal and interest of existing debt, shall not in the aggregate exceed in any one year two per centum of the assessed valuation of the real and personal estate of such county or city, to be ascertained as prescribed in this section in respect to county or city debt.

This is a very liberal provision; and in view of the large appropriations necessary in New York for the debt-service ($40,454,772.86 in 1908), which are excepted from computation, taxation might become highly oppressive without exceeding its limitations. Without contravening the constitution, $67,501,260.34 of additional taxes might have been imposed in 1908, or 58 per cent more than the actual levy.

As the constitutional limit is closely approached—and present tendencies do not indicate a far-distant postponement of that time—the pressure for additional revenue is likely first to operate in over-assessing real estate, up to the point (beyond 100 per cent of real value) where review of assessments by writs of *certiorari* will become general. If the over-assessment were not too great, the expense of the necessary litigation would probably deter most taxpayers from contesting assessments, since the cost would prove greater than the relief which the

courts could give. This protection, however, which the taxpayer now has in the courts, is not derived from the constitution; it is found only in the statutory law;[1] and it is not to be doubted that a community really intent upon spending more money would be able to secure the repeal of the statute in question. With its repeal, the constitutional provision itself might become practically valueless; since in the absence of statutory laws and as long as all property were overvalued in equal degree, it is uncertain whether the courts would restrain even radical over-assessing of real estate. Before this change in the law became necessary, however, it is likely that liberal use would be made of a device which has been employed to a limited extent in the past—the device of greatly increasing assessments of personal property regardless of the collectibility of such taxes.

Finally, it may be said that the experience of recent years has shown that the state constitution itself is rather a frail bulwark of conservatism. It is easily amended; its provisions can at the most delay for a few years only[2] the realization of a popular demand; and the public has shown at the polls a certain predilection for approving amendments which have received little, if any, previous discussion and consideration.

On the whole, therefore, it may be said that the advance of municipal socialism is not likely to be seriously obstructed by such artificial barriers.

In the economic effects of municipal socialism, then, must be found, if anywhere, the limitations of that movement. The importance of tracing, if possible, the natural results of exceedingly heavy taxation is manifest; since upon them would seem to depend the answer to the question above propounded, *viz.*, whether this movement can really continue until it shall result in "the practical abrogation of property."

History furnishes some aid to such an investigation. A few

[1] Greater New York Charter, sec. 906, allowing writs of *certiorari* "by reason of over valuation."

[2] Constitutional amendments before being submitted to the vote of the people must pass two legislatures having different senates. This generally means two or three years.

suggestive analogies may be found in the conditions which, in the fourth and fifth centuries, led to the ruin of the cities of the empire, and in the effects of excessive taxation in the case of the mediæval Italian cities. Human nature has changed far less than human institutions, and, however different were the conditions of urban life in those days, the same motives which induced men to forsake cities then would influence them now. On the whole, however, the political and industrial conditions which prevailed in the urban communities of the ancient world and of the middle ages were so essentially different from those of our time that it is perhaps better to treat the problems of municipal socialism as though they were wholly new.

The first and the most important matter to determine is: Upon whom will the burden of radically increased taxation fall? Will it be ultimately assumed by the owners of property, who are the direct payers of the taxes, or can it be shifted by them to their tenants? In the latter case can it by further shifting be brought to rest upon the entire community? The answers to these questions are all-important, since it is obvious that the purposes of municipal socialism will be defeated if its cost has to be mainly defrayed by the very class whose interests it is designed to further.

It is impossible within the limits of a single article to consider all the varied manifestations of the laws which govern the shifting and incidence of taxation. It will be sufficient for the moment to look into the working of these laws so far as they affect the system of taxation prevailing in New York City. So large a proportion of the entire municipal revenue of New York is raised by taxes on real estate as to render it hardly necessary to consider other forms of taxation.

In regard to the incidence of taxation on urban real estate economists are in substantial agreement on one point, *viz.*, that so far as the tax is imposed upon buildings it will be shifted to the tenant.[1] Orthodox political economy holds, on the other hand, that the tax, in so far as it is imposed on ground value, cannot be shifted but must be borne by the owner. This doctrine is stated by Professor Seligman as follows:

[1] *Cf.* Seligman, Shifting and Incidence of Taxation (2nd ed.), p. 238.

The owner who leases his land will always endeavor to get as much as possible for it. The price he gets will, in general, be entirely unaffected by the imposition of a tax. For, since the supply cannot be increased, and since there is no question of cost of production, the change in price will be effected only through a change in the demand. The price, in other words, will be fixed by the degree of marginal utility. Now, if the demand for the site increases to such an extent that the ground rent not only covers the new tax but leaves a profit in addition, the tax cannot be shifted to the lessee. For the price would have to be the same without the tax, since the demand of the lessees is not affected by a tax on the lessor. The ground owner will simply get less net return than he would have obtained had no tax been imposed; that is, the tax will fall on him.[1]

The English doctrine of "economic rent" grew out of a consideration of agricultural rents. The general principles of economic rent were considered to apply to city lots on the theory that the price is determined by the superiority of location. To this no objection could be made, were it not that there has been superimposed upon this principle the theory that city real estate possesses a so-called "monopoly value." But this is a mere abstraction. As a matter of fact there is no such thing as true monopoly value in urban real estate. From the cheapest suburban lots appropriate for workingmen's homes to the choicest corners in the heart of the financial district there is a gradual shading of values which makes interchangeability of use a matter of almost daily experience in large cities. Assuming that a particular city is growing, it will be found that on the outskirts of the financial district, for example, there are plenty of sites (their number increasing geometrically as the radius of the circle is lengthened) occupied for other than financial uses, which, as demand increases and rents rise, will—possibly with some economic friction, such as the necessity for demolishing old and unsuitable buildings—be brought into competition with the original sites. The same is true, *a fortiori*, of sites for dwelling houses.

The statement, therefore, that "the supply cannot be increased" would seem to be a theoretical assumption rather than

[1] Seligman, *op. cit.*, p. 236.

a fact. Supply as well as demand must be reckoned with in the case of site value as well as in the case of buildings. Moreover, the theory of the incidence of taxation on urban ground owners was originally worked out with reference to European conditions, where the owner of the site makes leases with reserved ground rents to another individual who builds upon the ground and either occupies the building himself or sublets it. This situation, while not unknown, is exceptional in New York, where the owner of the site is usually the owner of the building. Under these conditions it will not be found in practice that the total tax will readily divide itself, as in theory it should, into a tax on the site which cannot be shifted, and a tax on the building which can be.[1] In actual practice a number of qualifying

[1] Investment in real estate is not a law unto itself. The income which real estate has to yield to capital is fixed in competition with other forms of investment, due regard being had to such constituent factors as security, future enhancement or depreciation in values *etc.* Bearing this important fact in mind, let us now see what effect under actual New York conditions increase in taxation has upon rentals—making the attempt to separate site values from building values. Suppose that the income from ground rent, as fixed in competition with other forms of investment and taking into account the possibility of future enhancement of values, is four per cent. Let us also assume the proper income similarly to be derived from investment in buildings, which have no such possibility of future enhancement but on the contrary are subject to depreciation from wear and tear, should be six per cent. Let us suppose taxes to be one per cent on actual values. Mr. A. owns a plot of ground worth under these conditions $50,000, upon which there has been erected a building also worth $50,000. His investment works out as follows:

Land value	$50,000
Building value	50,000
Total value	$100,000
Gross rental	9,000
Expenses of maintenance and operation	3,000
Net rental without deducting taxes	$6,000
Ground rent ($2,000) and tax on site ($500)	2,500
Available for building rent and tax on building	$3,500
Tax on building	500
Leaving six per cent on value of building	$3,000

Mr. B. owns a vacant plot of ground which is suitable for the erection of an exactly similar building but which, owing to its inferior location, cannot command such large rents. He estimates its value at $30,000 and is willing to accept four per cent

and conflicting conditions come into play, among which may be mentioned (1) immobility of invested capital, (2) long leases at fixed rentals and the custom of requiring the tenant to pay taxes, (3) varying conditions in the building trades and varying supply of capital for building loans, and (4) the centrifugal

net ground rent on this basis. On the assumption that this land is really worth $30,000, the gross rental which the land alone should obtain would be $1,200 plus the tax of $300 on the site, or $1,500. The gross rental which the land should obtain, when improved with a $50,000 building similar to A's, would be the same as A's property less the difference between the gross rentals of the two sites, or $9,000 less $1,000, or $8,000.

Let us now see what the effect of taxation will be on this business proposition, assuming (1) that the taxes are one per cent on actual value, as in A's case; (2) that the taxes were doubled or made two per cent, and (3) that no taxes at all were imposed.

	Case 1	*Case 2*	*Case 3*
Land	$30,000	$25,000	$37,500
Building value	50,000	50,000	50,000
Total value	$80,000	$75,000	$87,500
Gross rental	$8,000	$8,000	$8,000
Maintenance and operation	3,000	3,000	3,000
	$5,000	$5,000	$5,000
Tax on site	300	500	
	$4,700	$4,500	$5,000
Net ground rent	1,200	1,000	1,500
	$3,500	$3,500	$3,500
Tax on building	500	1,000	
Income from building	$3,000	$2,500	$3,500
	or six per cent	or five per cent	or seven per cent

In case 1 the plot would be improved, because B's lessee could get six per cent on the cost of the building. In cases 2 and 3, we have voluntarily, and to escape unnecessary argument, sacrificed part of our case by adopting the extreme single-tax theory, that increased taxes on ground immediately bring about a corresponding reduction of ground value, and that, in like manner, decreased taxes serve to increase ground values. The changes in value of B's ground, as stated in the illustrations, in accordance with this theory, are obtainable by a simple mathematical formula. This theory of the single-taxers might be regarded as true if all buyers and sellers regarded the new tax as irrevocably permanent. Under ordinary circumstances, the predicated result would not follow; and to the extent to which it would prove false our illustrations would be correspondingly strengthened. However, even with this much granted, it will be seen that in case 2 building would be impossible, and that in case 3 building would be so profitable that not only B's land but other vacant land inferior

and centripetal forces of racial and family ties in old and newly formed tenement districts.

It may be admitted with some qualification that the owner of vacant land cannot shift the tax; it may be admitted, also, that a large fraction of that portion of taxation which falls on the

to it would be immediately improved. In case 2, where taxes have been doubled and new building operations checked, the effect in a growing city would be that supply would remain constant while demand was increasing. Rents therefore would continue to rise (thereby shifting an increasing part of the additional tax burden upon the tenants) until they reached that point where new building operations could be resumed. In case 3, where we assume a total absence of taxation, competitive building would be so extensive that rents would fall. There is apparently, therefore, some fallacy in the economic theory that a ground tax cannot be shifted by the landlord, since (as the theory runs) "if the tax were to be suddenly abolished, he would nevertheless be able to extort the same rent, since the ground rent is fixed solely by the demand of the occupiers." The fallacy lies in the economic fetich of "monopoly value" and in disregarding the existence of competitive supply. It is not to be denied, of course, that in case 2 a considerable part of the loss due to increased taxes would fall on the ground owner during the period he was forced to keep his ground vacant. Advocates of the "single tax" point to this fact, and they reason that the heavier the ground tax the more anxious the owner will be either to improve his land immediately and obtain such income as he can or else to sell at a loss and permit someone else to improve the land. This idea, as applied to actual conditions of taxation in New York, while partly true is also partly fallacious, because it ignores one element of human nature. No class of property owners are so tenacious as owners of vacant real property, especially in cities. In years of great depression speculators are occasionally obliged to sacrifice their holdings; but as a rule the owner of vacant property will continue to hold it vacant for long periods of time, if necessary, rather than sell it at a loss. This trait is so wide-spread and so universally recognized that it cannot be ignored in dealing with actual conditions. Even in cities like New York, where land values increase rapidly, immense losses have been sustained by obstinate owners of vacant land. Whether this disposition on the part of owners of vacant property, born of hope and faith in urban land values and maintained in spite of innumerable discouragements and disappointments, would be supplanted by a feeling of hopelessness if confronted by a thoroughgoing application of single-tax theories, it is not necessary now to consider, since we are dealing only with existing systems of taxation.

It is far from true that all land held vacant or with inadequate improvements is held merely for speculative resale. Owners of such land often anticipate the city's growth by building temporary "taxpayers" or by erecting permanent structures from which no adequate income can be derived for a number of years. The latter course, particularly, is encouraged by low taxes; and the more it is pursued the greater becomes the supply of improved properties and the greater the restraint on increasing rents.

There is still another factor in the prevailing economic theory which is found to lose much of its weight when tested in the crucible of actual experience, *viz.*, the doctrine of maximum rent. Owners of land do not in actual practice succeed in getting the last available dollar of rent out of their properties. Landlords either manage their properties themselves or place them in the hands of agents. When landlords are

site value of improved property in one ownership cannot be shifted. But even then the incidence of the whole real-estate tax will be found to be very largely on the tenant.[1]

Out of a total assessed valuation in 1908 of $6,141,500,119 (excluding assessments on corporations and special franchises), $3,843,165,597, or about three-fifths, represented the value of the site and $2,298,334,522, or about two-fifths, the value of the buildings. How much of the site tax is in fact shifted to tenants may be a matter for conjecture only, but under the

wealthy, addicted to a life of ease and unwilling closely to follow up changing business conditions, they are especially likely to employ agents. Such owners become accustomed to a certain net rental and, so long as they obtain this, they remain content. Under these circumstances the agents, who are paid generally by commission on the rentals collected, are prone to disturb renting conditions as little as possible. They have little to gain by extreme zeal in increasing rents whenever opportunity offers, and they have much to lose in taking a chance of causing tenants to leave and having a number of vacant buildings on their hands. The same is true in the smaller number of instances in which wealthy landlords manage their own properties. When taxes are materially increased, however, so that the net income to which the owner has become accustomed can no longer be obtained at the old rentals, there arises an active impulse to raise rents.

No better illustration can be given of the way in which increased rents follow increased taxes than the so-called "rent-war" which occurred not long ago in the district east of the Bowery on Manhattan Island. The landlords here were, as a class, not wealthy and owned comparatively slender equities in heavily mortgaged properties. As a rule, they lived in the tenements, knew all the tenants personally and themselves collected the rents. No keener class of landlords could well be imagined. Owing to racial causes, the lower East Side on Manhattan Island comes about as near to realizing the theorist's idea of monopoly value in land as any district that can be named. Here, if anywhere, it would be thought, would be found a situation where the last penny of rent was at all times being exacted from tenants. Yet when there came a substantial increase in taxation, rents were advanced throughout this district with practical unanimity. The landlords—owners, as has been said, of comparatively small equities in heavily mortgaged properties—were obliged to do this or lose their investments. This rise in rents happened to coincide with an increasing business depression. A "rent-strike" was organized, followed by considerable public disorder; tenants refused to pay any rents, and the district courts were clogged with ejectment cases. As the landlords had no alternative but to remain steadfast in their demands, the rent-strike ended in utter failure. Here, then, was a demonstration of the way in which increased taxes bring increased rents and also a demonstration of the fact that the economic theory of maximum rent is seldom realized in actual experience. It might be realized if all such landlords were banded together in one enormous trust, which would dictate such common action as adventitious circumstances decreed in this instance; but such combination seems improbable.

[1] This is clearly recognized by Professor Seligman, *op. cit.*, p. 246.

practical conditions which prevail it seems safe to say that a major part at least of the total burden falls upon the rentpayers and a minor part upon the landowners. If from the total of the "site-assessment" all vacant property were excluded and the inquiry were limited to improved properties (which with unimportant exceptions are in cities the only properties for which rent is paid at all), it would be found that the rentpayers assume a far greater portion of the burden of the entire tax than the landowners.

The answer to the first question therefore is that, while the burdens of oppressive taxation would fall upon property owners far more heavily than upon any other one class, the price of municipal socialism will be paid chiefly by the community at large. Recognition of this fact, however, will, it may be assumed, find lodgment but slowly in the minds of the electorate;[1] and it seems probable that municipal socialism will for a time continue its progress unchecked by considerations of self-interest on the part of those who pay its cost. What, then, will be its general economic effect on the community?

Great cities maintain their commercial and industrial supremacy not only in competition with each other but also in competition with small towns and rural life. The "drift to the cities," of which we hear so much, is partly a social but mainly an economic phenomenon. People move from the country to the

[1] As Mr. Milo Roy Maltbie says: "Our tax systems are such as to make it appear that the burdens of government are borne by the propertied classes. They do, indeed, nominally pay the taxes levied; but in reality these are shifted until, according to the laws of incidence of taxation, the burden finally rests in most instances upon those who apparently pay no taxes but who actually do pay through increased rents and cost of commodities. Thus the workingman, who knows little about shifting and incidence and who seldom stops to consider how and how far he is paying the cost of government, sees little benefit to be derived from a more economical administration, but much to be gained from increased governmental expenditures, high salaries and higher wages, which increase the demand for labor and the reward which labor receives. Doubtless a system of taxation whereby the consumer would be made to pay taxes in the first instance and whereby increased governmental expenditures would be immediately reflected in the increased price of commodities—if it were possible to devise such a system—would produce a greater interest in governmental finance. Indeed, the system of taxation explains to a considerable extent the intelligent interest and watchfulness which characterize the English citizen." "City and State Expenditures," *Municipal Affairs*, December, 1900.

cities partly because they believe that living conditions in the latter offer greater opportunities for happiness, and partly because they believe that the mere problem of self-support is easier. In the language of economists, the "consumers' rent" is greater. Writers on social topics deplore this tendency, and in the vain effort to stem the tide advocates of "the simple life" never tire of depicting the advantages of the country.[1] But the movement continues, and many and dire are the predictions of the depopulation of the rural districts and of the resultant mischiefs. It does not appear, however, that due attention has been paid to the fact that, in so far as municipal socialism succeeds in offering to the substratum of city populations social benefits without cost, it nourishes and assists this very movement which social philosophers so deeply deplore.[2] The greater the social inducements offered, the more rapidly will the cities increase in population at the expense of the country and the smaller towns; and as urban congestion is thus increased the greater will be the necessity that municipal socialism shall multiply those expenditures which are peculiar to it.[3] Thus it will be seen that as one movement advances the other must keep pace with it, so that this yoked team is drawing us towards the point where all will live in cities and none will be left to till the fields. That this point should ever be attained is of course an economic impossibility; and the same reasons which make such an extreme result impossible will serve to indicate why a less extreme progress along these lines will find its natural limitations in economic laws.

We have seen that the burdens of extremely high taxation

[1] *Cf.* Adna F. Weber, The Growth of Cities, chap. viii. Henry George likens city growth to a wen or tumor which, drawing the wholesome juice of the body into its vortex, impoverishes all other parts of the frame. Social Problems, p. 317.

[2] Mr. Weber does suggest that "perhaps some of the many gratuities (such as hospitals and medical service) in cities might be restricted with advantage." *Ibid.*, p. 457.

[3] Students of Roman history will remember how the unhealthy growth of that city at the expense of the agricultural districts was fostered by the *lex frumentaria* of Caius Gracchus, which provided for the public sale of wheat at ridiculously low prices, and how this law was subsequently improved upon by a law of Clodius which provided for the free distribution of corn. For the consequences of the latter policy, *cf.* Ferrero, Greatness and Decline of Rome, vol. i., p. 300.

must be borne, for the most part, by the community at large. Under ordinary conditions,[1] such as prevail in most cities, owners of land can shift the larger part of the burdens of taxation upon tenants. Not only are the results of this shifting felt in increased rents of dwelling properties, including tenements,[2] but also in the rents paid by occupiers of business properties, especially in the retail trades. Certain modifications of this effect on wholesale business buildings will be noted hereafter. Retail tradesmen will inevitably charge their additional rentals to consumers, and the price of provisions, clothing and other necessaries of life will increase. Such articles must be purchased mainly in a home market. The luxuries of life will also cost more, although here there is the modifying factor that the wealthy are better able to seek a cheaper market for such commodities.

The inevitable result of this generally advanced cost of living must be increased wages—an increase which will not operate to the advantage of labor, since the purchasing power of wages will not increase, but which will operate most adversely to the general industrial welfare of the city, which must manufacture and sell its products in competition with other localities where productive costs are not so high. As a result of the increases of rents and wages which have occurred in New York in the past we have already witnessed the enforced removal of factories from Manhattan Island, first to the outlying boroughs and to the New Jersey suburbs, then later to localities widely removed from metropolitan influences.[3] Such a phenomenon would

[1] We are not considering the economic effects of the "single tax," which would raise a substantially different set of problems.

[2] High rents in a city, by adding to the laborer's cost of living, tend to counterbalance one of the most important advantages to him of urban life, *i. e.*, lower prices of staples; and as rents continue to increase his actual wages will become lower than they would be in the country. Another effect of high rents is to aggravate a most unfortunate practice among tenement dwellers, that of taking in lodgers, and generally to add to that overcrowding which it is the purpose of our tenement-house laws to prevent.

[3] The writer, having had his attention called to a district in New York which has recently witnessed a wholesale exodus of manufacturing plants, made an attempt to investigate the industrial causes thereof. Five of these manufacturing concerns were large and important, employing together over three thousand hands. In four cases it

be much more marked under the future conditions which are here assumed; and its tendency would be to lower real-estate values, withdraw from the city important fractions of its efficient laboring population, diminish the city's industrial output and reduce taxable wealth.[1]

Such would be the effects in manufacturing. A similar result would be entailed in the case of wholesale business, because here the home market is much less secure than in retail trades. Buyers from wholesalers will even now make their purchases in Chicago, Philadelphia and other cities at comparatively slight concessions in price. As wholesale business houses could and would move to other cities, rents of the buildings they occupy could not be raised to offset increased taxation, and a considerable portion of this loss could not be shifted by the landlords. The result would be a shrinkage of taxable values. Even more marked would be the effect on commercial activities. The railway differential against the port of New York has, in spite of the many advantages which the latter possesses, had the effect in recent years of aiding the growth of competing cities, so that their trade has increased in much larger ratio than that of New York. How much more marked, then, would be the effects of

was found that taxation, while not the determining cause, was a contributing factor. Other causes, such as inadequate shipping facilities and especially the high cost of trucking, taken in connection with high taxation and the prospect of its further increase, were deemed to outweigh the loss of a superior labor market and the cost of moving. Four of the concerns moved to New Jersey and one to another borough of the city.

In another case, where also the question of taxation was considered important, a manufacturing establishment has determined to move from New York, although the mere cost of moving will exceed $200,000. This cost of moving is undoubtedly an element of "economic friction" which tends to keep factories where they are until the disadvantages of their location become very pronounced. But no such consideration can be said to affect business judgment when the question arises where to establish a new plant, and here the effect of even slightly excessive taxation may easily prove to be the determining factor. The check to new growth will therefore be felt before a loss is experienced from the removal of existing industries.

[1] The great cities of modern times have grown as the result of economic causes and not for the purpose of securing social benefits. The latter have been incidental effects rather than causes. If cities were not superior agencies for the economic production of wealth they would never have grown as they have; and should this superiority disappear, their decay would be imminent.

such conditions as we have been considering! The play of commerce is in a free field where handicaps tell for their full weight.

Thus far we have treated of the effects of extreme taxation on New York City under the assumption that its competitors will be less heavily burdened. If it be assumed that municipal socialism is to march forward with equal strides in other cities, a corresponding modification must be made in our conclusions; though there would still remain the important—and under these conditions the increasing—competition of the small towns. A general and uniform development of municipal socialism is, however, extremely unlikely, and to render our conclusions wholly invalid, it would be necessary to imagine practically the whole world, China included, committed to socialistic principles. So long as any substantial part of it clings to the more obvious advantages of modern industrialism, so long must we keep at least within hailing distance of the general line of social movement. The ambitious programs of municipal socialism involve such enormous public expenditures that the burdens of taxation resulting therefrom would surely drive away from a city more trade, more manufacturing, more industry, more population, than could possibly be attracted to it by the benefits which these expenditures were intended to secure. Those who dream of a speedy realization of the utopian hopes which sociology has revealed to some of its enthusiastic votaries must curb their impatience lest disaster befall.[1]

The social philosophers who devise grandiose schemes of municipal development and social reconstruction are not usually those who have to foot the bill. To spend the money of others for the benefit of mankind is a doubled delight. We laugh in a good-natured way at the volunteer advisers who seek to direct the willing stream of Mr. Carnegie's benevolence; but how

[1] It is to be regretted that the graduates of our universities, who recruit so largely the ranks of the "parlor socialists," should specialize so exclusively in social science. This study—which, as yet, is not a science at all—is undoubtedly more alluring than taxation, finance and other branches of economics. The latter, however, are more firmly grounded on facts elicited by empirical investigation, and a better appreciation of their significance would help to moderate youthful extravagances. Those who keep their gaze fixed on the stars should none the less tread firmly on the earth.

ought we to regard those who would gratify their *folie raison nante* by employing the taxing power to empty the pockets of those unwilling and unable to pay?

Whatever progress has been made in the modern social "uplift" has been due to the wonderful achievements of modern industrialism, which have created so large a "surplus value" as to enable wealth to realize much of its latent social power. The ability to aid mankind is no longer limited to a small aristocracy of charity; more and more each day, as prosperity increases, the community at large becomes better able and more willing to contribute towards this end. But this ability must not be over-estimated. With the great majority of men the first problem is still that of self-support. A man must feel secure of that before he can be expected to give, either voluntarily through old-fashioned charity or involuntarily through taxation for better social conditions. The fanatics of the new religion of socialism, by fostering municipal megalomania, can more effectively arrest the progress of social welfare than the most selfish and stubborn of reactionaries. Mankind, in spite of Herbert Spencer's forebodings, still cherishes the sentiment of justice. Indeed, it is that very sentiment, in part, which makes us so desirous to raise the deserving poor from oppressive conditions, but this must not be attempted at the cost of a greater injustice.

The limitations of municipal socialism lie mainly in the effects of excessive taxation. Should this movement, which in its philanthropic aspect is, as I have said, merely a kind of governmental sodality, advance with due recognition of its economic limitations, it would be difficult now to set the bounds of its ultimate accomplishments. But it depends for its future upon economic prosperity and sanity in expenditure.

EDGAR J. LEVEY.

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